

Message Text

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DEPT PASS COMMERCE FOR DEPUTY ASSISTANT SEC'Y HOSTLER

E.O. 11652: GDS

TAGS: BEXP, IR

SUBJ: VISIT OF MR. DAVID SCOTT, BOARD CHAIRMAN, ALLIS CHALMERS

1. BEGIN SUMMARY: U.S. REPS OF ALLIS CHALMERS, INCLUDING BOARD CHAIRMAN DAVID SCOTT, MET WITH AMBASSADOR AND EMBOFFS ON AUGUST 11 REGARDING POSSIBLE IRANIAN GOVERNMENT EQUITY PARTICIPATION IN FIAT ALLIS, CHICAGO, ILLINOIS, AND ALLIS CHALMERS' JOINT VENTURE IN IRAN. EMBASSY JUDGES THAT PROPOSED ALLIS CHALMERS' JOINT VENTURE IN IRAN--FOR MANUFACTURE OF HEAVY CONSTRUCTION MACHINERY--CONTINUES TO PROSPER DESPITE RECENT GOI REQUIREMENT FOR 49 PERCENT PUBLIC OWNERSHIP OF SHARES. GOI BUY IN OF FIAT-ALLIS IN U.S. STILL VERY MUCH IN TALKING STAGE: END SUMMARY

2. BOARD CHAIRMAN SCOTT TOLD EMBASSY THAT IN MARCH 1975 GOI'S INDUSTRIAL DEVELOPMENT AND RENOVATION ORGANIZATION, A STATE ENTITY, ASKED SCOTT WHETHER "ALL OR PART OF" SHARES OF FIAT-ALLIS OF U.S. COULD BE MADE AVAILABLE FOR PURCHASE BY GOI. SCOTT DESCRIBED FIAT-ALLIS AS A JOINT ALLIS CHALMERS/FIAT OF TIALY MANUFACTURING VENTURE, HEADQUARTERED IN CHICAGO, AND WITH PLANTS IN WESTERN

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EUROPE AND SOUTH AMERICA. FIAT-ALLIS IS CAPITALIZED AT

\$225 MILLION, 65 PERCENT OWNED BY FIAT AND 35 PERCENT BY ALLIS CHALMERS. A PROFITABLE VENTURE SINCE ITS ESTABLISHMENT 18 MONTHS AGO, A SINGLE SHARE OF FIAT-ALLIS STOCK NOW COSTS IN THE NEIGHBORHOOD OF \$2.7 MILLION. BOTH ALLIS CHALMERS TOP MANAGEMENT AND FIAT ARE IN PRINCIPLE FAVORABLY DISPOSED TO THE IDEA OF AN IRANIAN PARTICIPATION IN THE VENTURE IF AGREEMENT CAN BE REACHED ON THE VARIOUS DETAILS. THE IRANIAN EQUITY MIGHT GO AS HIGH AS 29 PERCENT OWNERSHIP. MR. SCOTT PLANS ON MEETING WITH GOI MINISTER OF ECONOMY AND FINANCE HOUSHANG ANSARY AT AN EARLY DATE, POSSIBLY IN EARLY SEPTEMBER WHEN ANSARY IS IN U.S. FOR IBRD/IMF MEETING. IF MEETING TAKES PLACE IN TEHRAN, AMBASSADOR INDICATED HE WOULD BE HAPPY TO ASSIST IN SETTING UP THE APPOINTMENT.

3. SCOTT SAID THAT ALLIS CHALMERS ESTIMATES THAT OVER THE NEXT DECADE OR TWO THERE WILL BE SUFFICIENT BUSINESS IN IRAN TO JUSTIFY A SECOND LINE OF HEAVY CONSTRUCTION EQUIPMENT. IF ALLIS CHALMERS IS SUCCESSFUL IN FINDING A SUITABLE IRANIAN PARTNER, THE JOINT VENTURE'S OUTPUT WOULD COMPLEMENT THE INTERNATIONAL HARVESTER LINE TO BE MANUFACTURED IN THE HEPKO PLANT IN ARAK. SCOTT INDICATED THAT RECENT GOI PROMULGATION ON 49 PERCENT OF PRIVATELY-HELD SHARES GOING PUBLIC DID GIVE PAUSE TO ALLIS CHALMERS, BUT THIS REQUIREMENT DOES NOT SEEM TO HAVE DEFINITELY RULED OUT AN ALLIS CHALMERS JOINT VENTURE IN IRAN. ALLIS CHALMERS EVIDENTLY VERY FAVORABLY IMPRESSED WITH CAPABILITIES AND EXPERIENCE OF BESHahr INDUSTRIAL GROUP BUT HAS NOT RULED OUT OTHER POSSIBLE IRANIAN PRtNERS. AMBASSADOR GAVE ALLIS CHALMERS REPS AN OVERVIEW OF INVESTMENT CLIMATE IN IRAN, INCLUDING OUR PROVISIONAL ASSESSMENT OF 49 PERCENT SHARE OWNERSHIP REQUIREMENT.

4. EMBASSY POUCHING MEMCON.
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